



Monthly Bulletin

Volume 10, Number 7**January 2007**

Nontraditional Mortgage Product Risks

It is the expectation of the Department of Financial Institutions that all licensees comply with the October, 4, 2006 "[Final Guidance on Nontraditional Mortgage Product Risks](#)" ("Guidance") issued by the federal regulatory agencies to address the risks posed by nontraditional residential mortgage products. Also known as "alternative" or "exotic" mortgage loans, they include "interest-only" mortgages and "payment option" adjustable-rate mortgages. These products allow borrowers to exchange lower payments during an initial period for higher payments later.

The Guidance is intended to promote consistent regulation in the mortgage market and to clarify how residential mortgage providers can offer nontraditional mortgage products in a way that clearly discloses the risks borrowers may assume. These products are offered to a wide spectrum of borrowers who may not otherwise qualify for a similar-size mortgage under traditional terms and underwriting standards. While many of these features exist in other adjustable-rate mortgage products, the concern is elevated with nontraditional products because of the lack of principal amortization and the potential for negative amortization. In addition, institutions are increasingly combining these loans with other features that may compound risk ("risk layering"). These features include making simultaneous second-lien mortgages and relying on reduced or no documentation in evaluating an applicant's creditworthiness.

Licensees should read and familiarize themselves with the Guidance and carefully scrutinize their risk management processes, policies, and procedures in this area. Institutions with sound underwriting, adequate risk management, and acceptable portfolio performance will not be subject to criticism merely for offering such products.

Consumer Information on Nontraditional Mortgage Loans

The federal bank, thrift, and credit union regulatory agencies have published a new resource that can help consumers make more informed choices when considering nontraditional mortgage loans. *Interest-Only Mortgage Payments and Payment-Option ARMs – Are They for You?* features a glossary of lending terms, a mortgage shopping worksheet, and a list of additional information sources. This information can help consumers, whether buying a house or refinancing a mortgage, decide if an interest-only mortgage (an I-O mortgage) or an adjustable-rate mortgage (ARM) with the option to make a minimum

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Consumer Compliance

(415) 263-8500
(213) 897-2085
(916) 322-5966
(619) 682-7227
(800) 622-0620

payment (a payment-option ARM) is right for them. The publication stresses the importance of understanding key mortgage loan terms, and warns of the risks consumers may face.

The interagency information is available on each agency's web site or on the DFI website. A PDF (Portable Document Format) version is provided so that consumer groups, financial institutions, agencies, and other organizations can download and print copies for distribution to their clients and customers. It includes a space on the back panel for organizations to provide their own contact information. The web addresses are:

http://www.federalreserve.gov/pubs/mortgage_interestonly/default.htm

<http://www.fdic.gov/consumers/consumer/interest-only/index.html>

<http://www.occ.treas.gov>

<http://www.ncua.gov/Publications/Index.htm>

<http://www.ots.treas.gov>

Single copies of the brochure are available free of charge from:

- Publications, Mail Stop 127, Federal Reserve Board, 20th and C Streets, N.W., Washington, DC 20551; 202-452-3245
- FDIC Public Information Center, 3501 North Fairfax Drive, Room E-1002, Arlington VA 22226; 877-ASK-FDIC, 703-562-2200

Warning Notice - Fraudulent Cashier's Check Activity

Recently, DFI has observed an upsurge in the use of fraudulent cashier's checks. Typical scenarios involve unwitting consumers who receive fraudulent cashier's checks in payment for goods they are selling via Craigslist or E-Bay. Sometimes the checks are for more than the purchase price, with a request to wire the difference back to the buyer. In other scenarios, consumers receive a letter informing them that they have received an unexpected windfall. A large denomination cashier's check is enclosed and the consumer is instructed to deposit the check and wire a specified amount to the remitter for "processing fees". In each case, the consumer, who believes the check to be good, deposits it into his or her account and, if requested, wires funds as instructed by the remitter. Some time later, the item is returned as uncollectible and the amount of the check is deducted from the consumer's account, creating a financial hardship for the consumer and an angry customer who may blame the financial institution for the loss.

DFI encourages its licensees to avoid these scenarios by educating their customers to be smart consumers. Many consumers do not understand the difference between when funds become available and when checks finally clear. Cashier's checks have developed a reputation of being good on face because they are obligations of a financial institution and not an individual, consequently consumers are more likely to let down their guard and accept a fraudulent check when it purports to be an official item.

The Office of the Comptroller of the Currency (OCC) has issued a [Bulletin](#) and a [Consumer Advisory](#) in which it outlines some practical steps for national banks to take with regard to the growing problem of cashier's check fraud, but these steps apply equally to all financial institutions that offer deposit relationships to the general public. DFI applauds the OCC for taking the lead on this important issue, and we recommend that state-chartered banks and credit unions alike study these releases to learn how they can help their customers be smart and responsible consumers.

Transmitter of Money Abroad Voluntarily Surrenders its California Operations

Pan Asian Currency Exchange Corporation ("Pan Asian"), has voluntarily surrendered its California operations effective January 3, 2007.

Pan Asian is now an agent of Maniflo Money Exchange, Inc. ("Maniflo"). Contact information for Pan Asian: Ms. Anita Papa, 1939 Alum Rock Avenue, San Jose, CA 95116, USA; 408-251-1250. Contact information for Maniflo: Mr. Florino Agpaoa, 1442 Highland Avenue, National City, CA 91950-4624, USA; 619-474-1547.

Consumers who wish to file a claim should call the DFI Consumer Information Desk's toll free number, 1-800-622-0620 or email consumer@dfi.ca.gov. Consumer complaint forms in English and Spanish are available at <http://www.dfi.ca.gov/forms/consumer/consumer.asp>

DFI Encourages Licensees to Participate in VITA

As the tax season begins, the Department of Financial Institutions (DFI) is encouraging its licensees to participate in the Volunteer Income Tax Assistance (VITA) program. Sponsored by the Internal Revenue Service (IRS), VITA offers free preparation of income tax returns for low- and moderate-income individuals.

Participation in VITA programs offers banks the potential for favorable consideration under Community Reinvestment Act (CRA) rules and opportunities to provide financial education and open new accounts for underserved individuals. Under CRA regulations, financial institutions can receive favorable consideration in the investment test (12 CFR 345.12(t) & 345.23) or service test (12 CFR 345.12(i) & 345.24) for qualifying VITA-related activities.

By participating in VITA credit unions can assist their members to qualify for the Earned Income Tax Credit (EITC). Members receive free tax preparation service and free electronic filing with direct deposit options at credit unions.

Financial institutions can participate in the VITA program in various ways, including by:

- Notifying staff of opportunities to be VITA volunteers;
- Marketing the EITC and VITA program to bank customers;
- Co-sponsoring a VITA site or coalition;
- Hosting a VITA site at a bank branch;
- Offering taxpayers the opportunity to start the process of opening a bank account at the VITA site, whether by phone or with staff on-site;
- Partnering with the local VITA program to make financial education available to consumers at VITA sites; and
- Offering banking products responsive to the needs of VITA clients.

Additionally, new IRS rules allow taxpayers who receive their refunds via direct deposit to split the money into as many as three different bank accounts instead of just one.

To learn more about how your financial institution can partner with the IRS email partner@irs.gov or [visit the IRS Web site](#).

Commercial Bank Activity

New Bank

Commerce Bank of Temecula Valley
25220 Hancock Avenue, Murrieta, Riverside County
Correspondent: James H. Avery
The Avery Company, LLC
P.O. Box 3009
San Luis Obispo, CA 93403
(805) 544-5477
Filed: 1/2/07

Focus Business Bank
10 Almaden Boulevard, Suite 150, San Jose, Santa Clara County
(408) 200-8701
(408) 200-8797 (fax)
Officers: Richard L. Conniff, President and Chief Executive Officer
Michael T. Namba, Chief Financial Officer
Kenneth A. Corsello, Chief Credit Officer
Capitalization : \$27,500,000.00
Website: <http://www.focusbusinessbank.com>
Opened: 1/16/07

Merger

Legacy Bank, N.A., Campbell, to merge with and into United Security Bank, Fresno
Approved: 1/29/07

The Summit National Bank, Atlanta, Georgia, to merge with and into United Commercial Bank, San Francisco, California
Effected: 12/29/06

Acquisition of Control

The Industrial Bank of Taiwan Co., Ltd. and IBT Holdings Corp., to acquire control of EverTrust Bank
Filed: 12/26/06

Premium Finance Company Activity

New Premium Finance Company

American Global Finance Corporation
2501 E. Chapman Ave., Fullerton, Orange County
Approved: 1/9/07

AMGRO Premium Financing, Inc.
1410 Rocky Ridge Road, Roseville, Placer County
Approved: 1/18/07

Mid Continent Premium Finance, Inc.
6046 Cornerstone Court West, City and County of San Diego
Approved: 1/18/07

Premium Financing Services, Inc.
5480 Baltimore Drive, La Mesa, San Diego County
Approved: 1/9/07

San Joaquin Premium Finance, Inc.
5480 Baltimore Drive, La Mesa, San Diego County
Withdrawn: 1/5/07

Westport Financial Services, Inc.
2501 E. Chapman Avenue, Fullerton, Orange County
Approved: 1/24/07

Acquisition of Control

International General Agency, Inc., to acquire control of Advance Premium Finance, Inc.
Filed: 1/5/07
Approved: 1/19/07

Voluntary Surrender of License

Allegiance Premium Finance Company, Inc.
Effected: 1/18/07

Blackwater Premium Finance of CA, Inc.
Effected: 1/25/07

Capital Payment Plan of California, Inc.
Effected: 1/25/07

FPCAL, Inc.
Effected: 1/9/07

Foreign (Other State) Activity

New Facility

Manufacturers and Traders Trust Company (Facility – Insured Bank)

- 1555 S. Palm Canyon Drive, Palm Springs, Riverside County
- 114 Pacifica, Irvine, Orange County

Opened: 1/2/07

Credit Union Activity**Field of Membership**

Seven credit unions received approvals to add 19 new fields of membership during December 2006.

Variance

One credit union received approval for one request for variances to sections of the California Code of Regulations during December 2006.

Merger

Raincross Credit Union, Riverside, to merge with and into, Visterra Credit Union, Moreno Valley

Filed: 12/8/06

Approved: 1/3/07

MICHAEL A. KELLEY
Commissioner of Financial Institutions

Bulletin for Month ended
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to Financial Code section 258

